

# **Information Paper for the Legislative Council Panel on Housing**

## **Rent Policy and Rent Assistance Scheme**

### **PURPOSE**

This paper informs Members of the domestic rent policy and the Rent Assistance Scheme for public rental housing (PRH) estates.

### **THE RENT SETTING POLICY AND THE LEGAL PROVISIONS**

2. The prime consideration in setting rents for PRH is tenants' affordability, which is translated into median rent-to-income ratio (MRIR)<sup>Note</sup> ceilings. Other factors taken into account include estate facilities and location.

3. Section 16(1A) of the Housing Ordinance provides that any determination of variation of rent shall only take effect at least three years after coming into effect of the previous rent determination and that the overall MRIR of all public housing estates shall not exceed 10% after any rent variation. The Housing Authority (HA) adheres to this restriction when making rent adjustments.

4. The ceiling stipulated in section 16(1A)(b) of the Ordinance applies only in the situation of "determination of variation of rent" by the HA. If the MRIR in respect of all PRH estates rises above the ceiling of 10% because of reasons other than an increase in rent, such as a reduction of income of public housing tenants, the HA is not required to reduce rent.

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<sup>Note</sup> Rent-to-income ratio is the expression of rent as a percentage of income. Median rent-to-income ratio (MRIR) means that 50% of households' rent-to-income ratios are below that value while the other 50% are above it.

## **THE MRIR**

5. For the third quarter of 2000, the overall MRIR for all HA's PRH estates was 10.2%. The rise in MRIR above 10% is due mainly to a number of factors other than rent policy, as follows :

- (a) the rolling out of the Tenants Purchase Scheme in 1998 together with other subsidized home ownership schemes have enabled about 90,000 better-off tenants to become flat owners since 1997. As a result, those who stay in PRH are generally those with limited means and lower household income;
- (b) many tenants have opted for larger flats with better designs which attract higher rents; actual median allocation standard has gone up from 7.3m<sup>2</sup>/person in 1990 to 9.2 m<sup>2</sup>/person in 2000.
- (c) demolition of old housing blocks of cheaper rents under the Comprehensive Redevelopment Programme which will be completed by 2005; and
- (d) the surge of the Comprehensive Social Security Assistance (CSSA) cases among PRH tenants, from 59,000 in 1995 to 109,900 in October 2000, representing about 13% of the total number of PRH households. These CSSA cases have dragged down household income and correspondingly uplifted the overall MRIR, but rental affordability is not a problem for these households since their rents are fully reimbursed under CSSA.

## **RELIEF MEASURES**

6. PRH rents are calculated on the basis of internal floor area and barely cover the cost to the Housing Authority of rates, management fees and maintenance charges. They should not be compared to private housing rents which are separately calculated and do not normally cover

rates and management fees and maintenance charges. Public housing rents are not affected by rental movements in the private sector. Over the years, PRH rents have been kept at an affordable level. With heavy subsidy, on both capital and recurrent accounts, some 73% of PRH tenants are paying less than \$1,500 per month for rent.

7. To help tenants tide over the economic downturn, the HA has granted rent increase waivers to tenants of 262,900 flats for two consecutive years. The rent review exercises of 314,600 flats have been deferred until 1 December 2001. In fact, the rent levels of most of the PRH flats have remained unchanged for three to five years. The rentals foregone arising from the grant of the rent increase waivers and deferral of rent reviews amounts to \$3.8 billion.

8. Tenants facing short-term financial hardship may apply for the HA's Rent Assistance Scheme, details of which are explicated in paragraphs 11-14. Under the Scheme, eligible tenants need only pay half of their regular rentals. Tenants facing longer-term financial problems can apply for CSSA.

9. The heavily subsidized PRH rents together with the established safety net have assisted PRH tenants in genuine need notwithstanding the obligation of the HA under Section 4(4) of the Housing Ordinance to balance its income and expenditure accounts. In 2000/01, the deficit in operating PRH is projected to be \$2.5 billion, which means that the HA will be subsidizing some \$3,700 per flat per annum.

## **POLICY REVIEW**

10. In view of the community concerns over rising MRIR, the HA has decided to set up an ad hoc committee to conduct a comprehensive review of the domestic rent policy taking into account tenants' affordability, rational allocation of public housing resources, legislative provisions and community aspirations. Views from all sectors of the public will be taken into account before drawing up proposals.

## **RENT ASSISTANCE SCHEME**

11. To assist tenants who are facing temporary financial hardship, the HA introduced the Rent Assistance Scheme in 1992. To qualify for the assistance, an applicant's household must fulfill the following eligibility criteria -

- (a) all household members are non-CSSA recipients ;
- (b)(i) the household income falls below 50% of the respective Waiting List Income Limit; or
- (ii) the rent-to-income ratio of the household exceeds 25%;  
or
- (iii) the household income is between 50% and 60% of the Waiting List Income Limit, and the household's rent-to-income ratio exceeds 15%;
- (c) neither the tenant nor any family member owns any domestic or non-domestic property; and
- (d) Beneficiaries of rent assistance (including elderly households and households with disabled members) should not, unless with good reasons, be occupying flats with a size exceeding the respective maximum allocation standard.

12. All qualified households will be granted 50% rent reduction. Their eligibility will be reviewed annually. Except elderly households and households with disabled members, recipients of rent assistance will be required to move to flats attracting lower rentals in the same district if they continue to receive rent assistance for more than two years. In this case, the households concerned will be eligible for Domestic Removal Allowance and a one-month rent-free period.

13. Since prospective and redevelopment tenants are offered new or refurbished flats in accordance with their preference and affordability, they may not apply for rent assistance until the next rent review or unless their family circumstances have changed.

14. The Rent Assistance Scheme is widely publicised through the media, contacts with tenants, and distribution of explanatory leaflets etc. As at November 2000, 2,588 families were receiving assistance under Rent Assistance Scheme.

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